

JUL 31 2001

STATE OF ARIZONA
DEPARTMENT OF INSURANCE

DEPT. OF INSURANCE
BY

In the Matter of:

) Docket No. 01A-190-INS

CELTIC INSURANCE COMPANY
NAIC #80799

) **CONSENT ORDER**

Respondent.

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Examiners for the Arizona Department of Insurance (the "Department") conducted a Market Conduct Examination of Celtic Insurance Company (Celtic). The Report of the Examination of the Market Conduct Affairs of Celtic dated November 9, 2000 alleges that Celtic has violated A.R.S. §§20-461, 20-462, 20-1408, 20-2104, 20-2106, 20-2107, 20-2536, and Arizona Administrative Code A.A.C. R20-6-801, 20-6-1115, and Consent Order, Docket No 8566, filed on September 30, 1994.

Celtic wishes to resolve this matter without formal proceedings, admits that the following Findings of Fact are true, and consents to the entry of the following Conclusions of Law and Order.

FINDINGS OF FACT

1. Celtic is authorized to transact life and disability insurance pursuant to a Certificate of Authority issued by the Director.

2. The Examiners were authorized by the Director to conduct a market conduct examination of Celtic. The on-site examination covered the time period from January 1, 1999, through June 30, 2000 for non renewal of small groups, and July 1, 1999 through June 30, 2000 for all other areas reviewed, and was concluded on November 9, 2000. Based on the findings the Examiners prepared the "Report of Examination of the Market Conduct Affairs of Celtic Insurance Company" dated

1 November 9, 2000.

2 3. The Department previously conducted a market conduct examination of
3 Celtic. The on-site examination was concluded as of September 30, 1992. As a
4 result, a Consent Order (the "1994 Order") was filed by the Director on September 30,
5 1994, Docket No. 8566. The 1994 Order stated in pertinent part as follows:

6 Respondent shall cease and desist from...using application forms which fail to
7 provide notice of insurance information practices; from failing to provide notice to
8 the insured or prospective insured of the reasons for any adverse underwriting
9 decision, including but not limited to issuance of the coverage on a modified
10 basis; from failing to maintain all notes and workpapers pertaining to a claim in
11 the claim files; from failing to acknowledge receipt of notification of a claim within
12 ten (10) working days of receipt of said notification unless the claim is paid within
13 that time; from failing to complete the investigation of claims within 30 calendar
14 days after notification of the claim; from failing to notify the claimant of
15 acceptance or denial of the claim within 15 working days after receiving a
16 satisfactory proof of loss; from failing to notify the claimant of the need for
17 additional investigation of the claim within 15 working days after receiving a
18 satisfactory proof of loss; and from failing to pay interest to a first-party claimant
19 where the subject claim was not paid within 30 days after receipt of the proof of
20 loss.

21 3. The Examiners reviewed all of the Company's policy, advertising and
22 application forms and found as follows:

23 a. Celtic failed to advise applicants in one form, Application form G5-
24 584-00114AZ, of the right to request a more detailed notice of Celtic's information
25 practices.

26 b. Celtic made reference in the "Notice of Information Practices" to
27 investigative consumer reports in one form, G5-584-00114AZ, without also including in
28 the "Authorization to Release Information" the provision that an applicant may request
29 to be interviewed in connection with the preparation of any investigative consumer
30 report.

31 c. Celtic failed to advise the applicant that the applicant is entitled to

1 receive a copy of the authorization in the "Authorization to Release Information"
2 wording of application form G5-584-00114AZ.

3 d. Celtic included Medicare Supplement advertising material on the
4 Company's website, but failed to submit the advertising for review and approval prior to
5 use.

6 e. Celtic failed to offer a monthly premium payment option on its
7 conversion policy.

8 f. Celtic included in its conversion policy a requirement that the
9 applicant have a minimum of three months of prior coverage before being eligible for a
10 conversion policy.

11 4. The Examiners reviewed 34 out of 34 retrospective formal claim appeal
12 files and found that the Company failed to advise 13 appellants of the right to request
13 external independent review.

14 5. The Examiners reviewed 50 of 3,312 individual major medical paid claim
15 files, 50 of 1,523 individual major medical denied claim files, 50 of 1,714 HPS
16 individual major medical paid claim files, 50 of 373 HPS individual major medical
17 denied claim files, 50 of 84 short term medical paid claim files, 50 of 107 short term
18 medical denied claim files, 50 of 1,470 Medicare supplement paid claim files, 50 of 652
19 Medicare supplement denied claim files, 50 of 236 small employer group paid claim
20 files, 19 of 19 individual conversion policy paid claim files and 21 of 21 individual
21 conversion policy denied claim files processed during the time frame of the
22 examination and found as follows:

23 a. Celtic failed to acknowledge the receipt of notice of 283 claims
24 within 10 working days of receipt.

25 b. Celtic failed to advise 168 first party claimants of the acceptance

1 or denial of the claim within 15 working days of receipt by the insurer of properly
2 executed proof of loss.

3 c. Celtic failed to pay interest on 47 claims which were not paid
4 within 30 days after receipt of an acceptable proof of loss containing all information
5 necessary for claim adjudication.

6 6. Celtic's failure to pay interest to claimants whose claims were not paid
7 within 30 days after receipt of an acceptable proof of loss resulted in total claims
8 underpayments of \$580.89 to these claimants.

9 10 **CONCLUSIONS OF LAW**

11 1. Celtic violated A.R.S. §20-2104(C)(4) by failing to advise applicants in the
12 "Notice of Information Practices" of the right to request a more detailed notice of the
13 Company's information practices.

14 2. Celtic violated A.R.S. §20-2107(A) by failing to advise applicants that the
15 applicant may request to be interviewed in connection with the preparation of any
16 investigative consumer report.

17 3. Celtic violated A.R.S. §20-2106(9) by failing to inform the applicant that the
18 applicant was entitled to receive a copy of the authorization to release information.

19 4. Celtic violated A.A.C. R20-6-1115 by failing to submit Internet advertising
20 material pertaining to Medicare supplemental insurance to the Director for review.

21 5. Celtic violated A.R.S. §20-1408(C) by failing to offer an optional monthly
22 premium payment mode to Arizona residents who were considering the purchase of a
23 conversion policy.

24 6. Celtic violated A.R.S. §20-1408 by including an eligibility requirement of 3
25 months of coverage under a prior group plan before being able to purchase a

conversion policy.

7. Celtic violated A.R.S. §20-461(A)(2), A.A.C. R20-6-801(E)(1), and the 1994 Order by failing to acknowledge receipt of the notice of claim within 10 days working days of such receipt.

8. Celtic violated A.R.S. §20-461(A)(5), A.A.C. R20-6-801(G)(1)(a), and the 1994 Order by failing to advise first party claimants of the acceptance or denial of a claim within 15 working days of receipt of a properly executed proof of loss.

9. Celtic violated A.R.S. §20-462(A), and the 1994 Order by failing to pay interest on claims which had not been paid within 30 days of receipt by Celtic of an acceptable proof of loss containing all information necessary for claim adjudication.

10. Celtic violated A.R.S. §20-2536(G) because its adverse decision notification letters to formal appeal appellants failed to inform the appellants of the option to proceed to an external independent review.

11. Grounds exist for the entry of the following order, in accordance with A.R.S. §§20-220, 20-456 and 20-2117.

ORDER

IT IS HEREBY ORDERED THAT:

1. Celtic shall cease and desist from:

a. Using an application form, which fails to notify the applicant of the right to receive a more detailed notice of Celtic's information practices.

b. Using an application form, which fails to inform the applicant of the right to request to be interviewed in connection with the preparation of any investigative consumer report.

c. Using an application form in which the "Authorization to Release Information" section fails to advise the applicant of the right to receive a copy of the

1 authorization.

2 d. Failing to submit Medicare supplement related advertising material to the
3 Director for review.

4 e. Marketing, selling, or soliciting, individual conversion policies to Arizona
5 residents in which there is no monthly premium payment mode option.

6 f. Marketing or selling to Arizona residents individual conversion policies,
7 having an eligibility feature requiring 3 months of prior group coverage.

8 g. Failing to acknowledge the receipt of non provider claims within 10
9 working days of such receipt.

10 h. Failing to advise non-provider claimants of the acceptance or denial of a
11 claim within 15 working days after receipt of an acceptable proof of loss.

12 i. Failing to pay interest to non-provider claimants whose claims were not
13 paid within 30 days after receipt by the insurer of acceptable proof of loss containing all
14 information necessary for claim adjudication.

15 j. Failing to advise formal appeal appellants whose appeal was upheld of
16 the right to request external independent review.

17 2. Within 90 days of the filed date of this order Celtic Insurance Company
18 shall submit to the Arizona Department of Insurance for approval, action plans and or
19 evidence that the corrections have been implemented and communicated to the
20 appropriate personnel regarding all items mentioned in paragraph 1 of the Order
21 section of this Consent Order. Evidence of corrective action and communication to
22 appropriate personnel thereof includes but is not limited to form modifications, memos,
23 bulletins, E – Mail, procedure manuals, training materials and print screens.

24 3. Within 90 days of the filed date of this Order, Celtic shall pay interest to
25 the 17 claimants identified in Exhibit A of this Order.

4. Each payment required by paragraph 3 of the Order section of this Consent Order shall be accompanied by a letter in a form previously approved by the Director. A list of the payments, giving the name and address of each party paid, the amount of each claim paid, the amount of interest paid and the date of payment shall be provided to the Department within 90 days of the filed date of this Order.

5. The Department shall be permitted through authorized representatives to verify that Celtic has complied with all provisions of this Order.

6. Celtic shall pay a civil penalty of \$20,000.00 to the Director for deposit in the State General Fund in accordance with A.R.S. §20-220(B). This civil penalty shall be provided to the Market Conduct Examination Section of the Department prior to the filing of this Order.

7. The Report of Examination of the Market Conduct Affairs of Celtic Insurance Company as of November 9, 2000, including the letter submitted in response to the Report of Examination, shall be filed with the Department after the Director has filed this Order.

DATED at Phoenix, Arizona this 21 day of July, 2001

Charles R. Cohen
Director of Insurance

Exhibit A

Failure to Pay Interest on Claims Not Paid Within 30 Days

<u>Claim Number</u>	<u>Date Paid</u>	<u>Claim Amount</u>	<u>Interest Owed</u>
993611209	2/8/00	\$1,107.00	\$13.04
000242562	3/2/00	\$514.92	\$5.22
993192052	12/18/99	\$7,468.65	\$67.45
E99959594	2/22/00	\$368.96	\$5.05
983411531	8/25/99	\$91.98	\$6.57
93270794	1/11/00	\$818.20	\$10.98
992511322	10/21/99	\$482.30	\$5.68
000881228	4/29/00	\$1,279.44	\$11.22
992351895	9/23/99	\$1,120.00	\$9.51
000278031	6/2/00	\$1,680.00	\$58.45
000278033	6/2/00	\$2,081.60	\$72.43
000428023	5/26/00	\$259.20	\$7.46
001228641	6/30/00	\$704.80	\$11.39
001228642	6/30/00	\$680.00	\$10.99
000078033	2/25/00	\$570.00	\$7.65
993448030	2/25/00	\$2,000.00	\$42.74
993478101	2/25/00	\$11,440.00	\$235.06
17 Claims	Total		\$580.89

CONSENT TO ORDER

1. Celtic Insurance Company has reviewed the foregoing Order.
2. Celtic Insurance Company admits the jurisdiction of the Department of Insurance, State of Arizona, admits the foregoing Finding of Fact, and consents to the entry of the Conclusions of Law and Order.
3. Celtic Insurance Company is aware of the right to a hearing, at which it may be represented by counsel, present evidence, and cross-examine witnesses. Celtic Insurance Company irrevocably waives the right to such notice and hearing and to any court appeals related to this Order.
4. Celtic Insurance Company states that no promise of any kind or nature whatsoever was made to it to induce it to enter into this Consent Order and that it has entered into this Consent Order voluntarily.
5. Celtic Insurance Company acknowledges that the acceptance of this Order by the Director of the Arizona Department of Insurance is solely for the purpose of settling this matter, and does not preclude any other agency or officer of this state or its subdivisions or any other person from instituting proceedings, whether civil, criminal, or administrative, as may be appropriate now or in the future.
6. Eric B. Wilmer who holds the office of Asst. Vice Pres. of Celtic Insurance Company is authorized to enter into this Order for it and on its behalf.

CELTIC INSURANCE COMPANY

July 27, 2001
Date

By

Eric B. Wilmer

1 Copy of the foregoing mailed/delivered
2 this 31st day of July, 2001, to:

3 Sarah Begley

Deputy Director

4 Mary Butterfield

Assistant Director

5 Consumer Affairs Division

Paul J. Hogan

6 Chief Market Conduct Examiner

Market Conduct Examination Section

7 Deloris E. Williamson

Assistant Director

8 Rates and Regulations Division

9 Steve Ferguson

Assistant Director

10 Financial Affairs Division

Nancy House

11 Chief Financial Examiner

Alexandra Shafer

12 Assistant Director

Life & Health Division

13 Terry L. Cooper

Fraud Unit Chief

14
15 DEPARTMENT OF INSURANCE

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18 Mr. Eric B. Wilmer, Assistant Vice President

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